News Release
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Oversight committee raises concerns regarding Treasury's role in the state's tobacco settlement

LANSING—After hearing testimony today from the deputy state treasurer, the co-chairs of the 21st Century Jobs Oversight Committee expressed concern over the Department of Treasury's role in the state tobacco settlement. The Department of Treasury knew about an SEC investigation of the senior underwriter for the Michigan Tobacco Settlement Finance Authority but failed to notify the authority of the investigation.

"My point is not to castigate you or the administration," committee co-chair Sen. Valde Garcia told Cynthia Faulhaber, deputy state treasurer. "But this is the second time the department has failed to notify one of its boards. This particular fund has some political overtones, and I want to make sure this whole process is done right because we want the fund to succeed."

Committee co-chair Rep. Bill Huizenga added that since Michigan's tobacco bond sale is the largest of its kind in the nation, the state should be particularly circumspect throughout the process.

"Everybody's watching," said Huizenga. "Other states are watching. Wall Street is watching. Most importantly, Michigan's taxpayers are watching. This is a very serious matter, and Treasury needs to be forthright in dealing with this committee."

Last week, the Securities and Exchange Commission (SEC) ordered Bear Stearns to pay $250 million in penalties for late trading and market violations. Although the Department of Treasury knew about the SEC's investigation, it failed to notify the Michigan Tobacco Settlement Finance Authority of the investigation.

(More)

On Tuesday, the tobacco authority questioned Bear Stearns about the SEC order. Bear Stearns denied any connection between the SEC order and its role as underwriter for the authority. The authority said they were satisfied with Bear Stearns' responses to questioning.

"Unfortunately, the committee's time could have been better spent if Treasury had simply informed the tobacco authority of the SEC investigation," said Garcia. "And it wasted the tobacco authority's time by calling them back for Tuesday's special meeting. We are not here to put Bear Stearns on trial. But since our role is oversight of the jobs fund process, we clearly need to raise the issue, which at a minimum appears to violate the spirit of the governor's first executive order."

The governor's first executive order, 2003-1, stated that the state should not do business with companies who have been convicted of any offense which negatively reflects on the vendor's business integrity or violated any other state or federal law … which … indicates that the vendor is unable to perform responsibly or which reflects a lack of integrity that could negatively impact or reflect upon the State of Michigan.

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